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SUBJECT: Scen setter for Secretary of Commerce Locke's September
27-29 Visit to the ACF and Chile

CLASSIFIED BY: Carol Urban, Charge; REASON: 1.4(B), (D)

¶1. (SBU) On behalf of Ambassador Simons, I would like to warmly welcome you to Chile on September 27-29. In hosting the Americas Competitiveness Forum (ACF) for the first time outside of the United States, Chile has worked closely with us to strengthen the ACF because it shares with us an awareness of the importance of entrepreneurship and innovation as part of a positive economic agenda for the hemisphere. This coordination on the ACF is emblematic of the growing cooperation between our two countries on regional issues, and follows shortly after President Bachelet's meeting with President Obama in Washington on June 23-24.

¶2. (C) President Bachelet is keenly interested in forging even stronger bonds with the Obama Administration. Her June visit to Washington reaffirmed our joint efforts to broaden and deepen the equal partnership we enjoy with one of the hemisphere's most successful democracies. The visit offered an opportunity to review regional developments with a trusted partner and deepen cooperation on new issues ranging from renewable energy to assistance for Haiti and Central America. In addition, the Vice President's March visit to Chile powerfully signaled Washington's interest in engaging with Chile and the region.

¶3. (C) Chile continues to promote "the Chilean way" through free trade agreements, closer ties with like-minded countries, and new areas of cooperation (e.g. energy) with traditional allies, including the United States. Chile is also trying to strengthen relations with its neighbors by promoting concrete, confidence-building measures that focus on the future and avoid rehashing historical differences. The Chilean economy has been hurt by the global financial crisis, but its fundamentals remain strong. The Chilean military's international efforts are consistent with the Chilean government's goals of increasing global trade and ties with Chile's neighbors.

Political Backdrop: Concertacion Still in Power after 19 Years

¶4. (C) Chile's center-left coalition government, known as the Concertacion, has been in power continuously since the end of Pinochet's military dictatorship in 1990. Chile's first female president, Michelle Bachelet, is wildly popular, enjoying a 73% approval rating. Under talented Finance Minister Andres Velasco, Chile has responded effectively to the global financial crisis, drawing down on Chile's sovereign wealth funds to finance a \$4 billion economic stimulus program featuring new jobs, labor subsidies for youth workers, and targeted tax cuts. Despite her

economic success, Bachelet views her legacy primarily in the social sphere. Her initiatives have expanded Chile's privatized pension scheme to vulnerable lower-income populations, offered free day care and basic nutrition for low-income families, expanded access to health care, and strengthened public education.

15. (C) Despite President Bachelet's popularity, the Concertacion faces a tight race in December's presidential and parliamentary elections. The President is constitutionally precluded from immediate re-election, and candidates from the two main political coalitions are at a loss as to how to portray themselves. Chileans are tired of 20 years of Concertacion rule, some inefficiency and mismanagement in government, and the same faces dominating Chilean politics. On the other hand, President Bachelet is personally beloved by many Chileans, her policies are generally well-regarded, and Chileans are grateful that the financial crisis has not hit their country harder.

16. (C) Billionaire entrepreneur Sebastian Pinera, representing the center-right Alianza coalition, currently has a roughly 10 point lead over Concertacion candidate Eduardo Frei, a Senator and former President (1994-2000). Upstart challenger Marco Enriquez-Ominami, a 36-year old legislator, is bucking the Concertacion establishment to run a surprisingly successful independent candidacy, but it is more style than substance in our estimation. The latest polls show that in a runoff between Pinera and Frei, Pinera has a three

percentage point lead, basically a statistical dead heat. Either of the two leading candidates would be strong partners for the Obama Administration.

Economy: Chile's Strong Economy Put to Test by Financial Crisis

17. (SBU) Chile is fortunate to be in a strong economic position to face the global economic downturn. The country traditionally runs budget surpluses (5.2% of GDP in 2008), has virtually no public debt, and has over \$20 billion in offshore sovereign wealth funds, much of it saved from when prices for copper -- Chile's most important export -- were at record levels. One of world's most open economies, Chile boasts trade agreements with 59 countries. Thanks to strong economic growth and targeted initiatives, poverty has dropped from 40% of the national population in 1990 to 14% in 2006. Nonetheless, the global economic downturn has been a significant set-back for Chile's economy, with unemployment rising to double digit levels and the economy set to contract by 1-2% this year. However, the Central Bank estimates that the economy will rebound strongly in 2010, growing between 4.5-5.2%.

18. (SBU) The U.S.-Chile Free Trade Agreement is one of the cornerstones of our relationship. The United States is Chile's largest trading partner, and Chile is our fifth largest trading partner in Latin America. Bilateral trade has expanded by more than 200% (totaling more than \$20 billion in 2008) since the FTA went into effect in 2004. Despite this success, some sticking points remain, notably Chile's failure to implement strong protection for intellectual property rights, as required by our FTA.

Chile on the International Stage

¶9. (SBU) Despite some domestic political missteps, Bachelet performs well on the international stage and has contributed to Chile's rising international stature. Chile is the Vice-Chair of the Partnership for Democratic Governance, is the leader of the Caribbean and Latin American nations group at the UN Human Rights Council, and held the Presidency of the South American Union of Nations (UNASUR) until August 10 of this year. Chile maintains a 500-strong peacekeeping contingent in Haiti, is developing a 1,000-troop joint peacekeeping force with Argentina, and is exploiting areas for collaboration on trilateral initiatives with the United States and other partners throughout the region. Additionally, the GOC sent two planeloads of humanitarian aid to the Gaza Strip through Syria and donated money to the International Red Cross during the Israeli-Hamas conflict there. This demonstrated Chile's international commitment to provide aid but also helped appease Chile's large Palestinian population of 400,000.

¶10. (C) The United States and Chile often work together closely and effectively on regional problems. President Bachelet, acting as president pro tempore of UNASUR, established a moderate tone for President Obama's initial meeting with regional leaders at the Summit of the Americas. In the past four months Chile has played a constructive role on Cuba's conditional re-entry into the OAS, the conflict in Honduras, and deflating the rhetoric surrounding the U.S.-Colombia Defense Cooperation Agreement. Chile is not comfortable with the rhetoric and actions of regional populists such as Venezuelan President Chavez, but has preferred to work quietly behind the scenes to provide a moderating influence rather than publicly dispute their more outlandish statements.

¶11. (C) Even though Chile and the United States see eye-to-eye on many regional and international issues, Bachelet has made it clear that Chile does not blindly follow where the United States leads.

In comments last fall during the UN General Assembly, Bachelet said that the U.S. and Chile were "political friends, but not unconditional friends" and criticized the United States for its role in precipitating the financial crisis. She has repeated the latter charge in other public fora as well.

The U.S. and Chile: Partners Across the Board

¶12. (SBU) The U.S. and Chile have forged a vibrant bilateral partnership over the years, with strong institutions in both countries ensuring continued cooperation from the bottom up as well as from the top down. The new Chile-California Partnership for the 21st Century, launched by President Bachelet and Governor Schwarzenegger in June 2008, highlights the economic and geographic similarities between Chile and California and fosters collaboration in agriculture, energy efficiency, environmental resource management, and education. Bilateral military and law enforcement ties are among the very best in the Hemisphere. During President Bachelet's visit to Washington, we signed agreements on energy cooperation and sharing cancer research, which reflect the breadth of our relationship. The United States and Chile also agreed to cooperate jointly in promoting development in other countries in the region; we are still exploring how we will do so, but will likely focus on Haiti, Paraguay and several countries in Central America.

Military Cooperation

¶13. (C) The Bachelet administration is interested in strengthening bilateral military relations as an element in modernizing and normalizing the Chilean military's role in society. Chile has turned to the United States as a primary source of equipment, technology and training to modernize its military. Ten new Block 52 F-16 fighter aircraft (delivered in 2007-2008) were the first major purchase of U.S. equipment since 1976, when the United States cut-off of military sales during the Pinochet era. Since then, the Chilean Military has purchased over \$130 million in military materiel from the United States, bringing the total value of FMS cases over the past 20 years to nearly \$1 billion. The Chilean Armed Forces are negotiating purchases of an additional \$1 billion in equipment and weapon systems in the next 12-24 months.

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